

SSI Convertible Market Flash Report (as of 9/30/2022)

Convertible Market Update

Performance Attribution:

The US Convertible Market, as measured by the ICE BofA All US Convertibles Index (VXA0), returned -5.98% during September and has declined by 19.98% year-to-date. All sectors produced negative returns for the month.

Issuance:

New issuance continued rebound in September with \$4.6bn for the month. Total new issuance for the year is at \$20.0bn.

Portfolio Impact

Convertibles have had a difficult year, but are now well positioned to provide increased downside protection and meaningful upside capture in a market rebound relative to underlying exposures. In fact, the asset class might be at a **historic entry point**. Convertibles are positioned meaningfully below historical averages of equity sensitivity (Delta). As of 9/30/22, the delta for US Convertibles was 0.38, compared to an average delta since the beginning of 1999 of 0.52. Also, the investment value premium for the VXA0 at 9/30/22 was 17.1% vs an average of 59.6% dating back to 1995. These data points highlight the above average downside protection while maintaining the potential for strong capital appreciation when markets rebound.¹

Active managers have many levers to position in portfolio construction, including in order of importance: equity sensitivity (delta), sector over/under weights, credit quality, and interest rate exposure. Currently, SSI portfolios maintain a lower than average delta. Relative to the overall

Portfolio Impact (Continued):

market, SSI portfolios typically have a lower duration profile and a stronger credit quality - fewer bonds rated or having implied ratings of less than BB. Sector/industry tilts include: selective additions to semiconductors and software, overweight to healthcare with a focus on quality larger cap and profitable biotech with upside catalysts, overweight to Energy due to supply dynamics, valuations and strong FCF, reduced Materials to equal weight, and underweight Consumer Discretionary due to margin pressures and expected weakening of consumer spending.

Performance

	MTD %	QTD %	YTD %
Convertible Index Performance			
ICE BofA US (VXA0)	-5.98	0.29	-19.98
Refinitiv US Focus	-6.92	-2.45	-23.34
ICE BofA Global (VG00)	-5.07	-0.38	-17.02
ICE BofA Global ex US (VG2I)	-4.22	-1.68	-13.74
ICE BofA Invest Grade (VOS1)	-7.43	-0.13	-4.23
ICE BofA IG 5% Constrained (VX5C)	-6.42	-2.37	-10.00

Convertible Arbitrage

HFRX RV: FI- Convertible Arbitrage Index (HFRXCA)	-3.80	-1.50	-14.57
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Footnotes and disclosures located on page 2 of Convertible Market Flash Report.

U.S. Convertible Performance Heat Map

	MTD %	QTD %	YTD %
Top Sectors (month)			
Healthcare	-3.59	2.44	-15.24
Media	-4.39	-2.92	-24.61
Consumer Staples	-5.54	-5.67	-20.43
Bottom Sectors (month)			
Energy	-11.68	1.77	20.37
Materials	-8.83	8.81	-1.29
Consumer Discretionary	-7.08	0.69	-31.25
Credit Quality			
Investment Grade	-6.63	-1.24	-10.87
High Yield	-8.62	-4.82	-25.28
Investment Objective			
Equity Alternative	-9.80	-1.26	-25.85
Total Return/Balanced	-7.02	0.38	-20.30
Fixed Income Alternative	-4.01	0.65	-15.72
Company Size			
Small	-3.16	0.92	-10.24
Mid	-5.07	1.01	-15.28
Large	-6.82	-0.25	-22.39

U.S. Convertible Portfolio Characteristics¹

	MTD
Current Yield	2.08
Duration	2.36
Delta	0.38
Percent Cheap	1.74
Conversion Premium	58.99%
Investment Value Premium	17.14%

Footnotes & Disclosures

¹U.S. Convertible Portfolio Characteristic represent the ICE BofA All U.S. Convertibles Index (VXA0)

Sources: BofA Global Research, Bloomberg, Barclays Live Research, BofA Global Convertibles Chartbook, October 3, 2022, SSI Internal Research
Data as of September 30, 2022, unless specified otherwise.

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Bank of America Data

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